



**DEFENSE LOGISTICS AGENCY**  
THE DEFENSE CONTRACT MANAGEMENT COMMAND  
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JUN 28 1995

IN REPLY  
REFER TO

AQO

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (ACQUISITION AND  
TECHNOLOGY)  
PRINCIPAL DEPUTY UNDER SECRETARY OF DEFENSE  
(ACQUISITION AND TECHNOLOGY)

SUBJECT: Prime and Subcontractor Relationships in the Single Process Initiative (SPI)

The SPI guidance issued throughout the Department provides for the use of a block change process to modify existing DoD prime contracts. This guidance does not address an approach to modify subcontracts for those contractors who also perform as prime contractors and propose to implement the SPI throughout their facilities.

An Integrated Process Team (IPT) consisting of representatives from each of the Services, DCMC and industry, was chartered to investigate this issue and recommend a process that could be used to modify subcontracts at DoD contractors' facilities. The IPT's final report is at TAB A. Essentially, the IPT recommends a parallel processing method which provides for the concurrent review and approval of proposed prime and subcontract single process changes by the government customers. The government will assist in coordinating contractor concept papers with all government customers while the contractor simultaneously coordinates his concept paper with the prime contractor. Using the block change process, the Administrative Contracting Officer will then modify prime contracts, and the prime contractors will modify their subcontracts.

We have prepared, for your signature, letters to Chief Executive Officers encouraging them to use the parallel process (TAB B), and a memorandum to DoD principals transmitting the IPT report (TAB C).

*V/R*  
*Robert W. Drewes*  
ROBERT W. DREWES  
Major General, USAF  
Commander

Attachments

***Final Report of the Integrated Process Team (IPT)***  
***on***  
***Prime and Subcontractor Relationships***  
***In***  
***The Single Process Initiative (SPI)***

**BACKGROUND:** On Mar 28 1996, Maj Gen Robert Drewes chartered a DCMC IPT to investigate and recommend a method to include subcontracts of DoD prime contractors in the SPI. The government ACO does not have privity of contract on subcontracts. Therefore, the ACO can issue block change modifications to existing prime contracts but cannot effect changes to subcontracts that are necessary for the contractor to implement common processes on a facility-wide basis. The IPT met on three occasions with industry representatives to discuss the issue and recommend a methodology by which the block change process could be applied to subcontracts under government prime contracts to permit the contractor to implement changes facility-wide.

**EXECUTIVE SUMMARY:** The IPT recommends that contractors be encouraged to utilize a parallel processing method for implementing the SPI where both prime and subcontracts need to be modified for use of common processes facility-wide. This method accomplishes the objectives of using an expedited, streamlined approach for processing all contractor proposals and simultaneously includes all stakeholders in the review/approval process. An alternate position, serial processing, is also offered. This method encourages prime contractors to accept previously approved changes by the government and then modify their subcontracts to allow the contractor to implement such changes on a facility-wide basis. While this method would reduce initial coordination efforts (though still require two cycles) it would not utilize our current process or include all stakeholders. A detailed discussion of the the parallel and serial methods and the IPT recommended process follows. Also included is a minority position authored by Mr. Darryl Watson of Texas Instruments (attachment 1), and a letter for CEOs (attachment 2), and DoD principals (attachment 3) .

**DISCUSSION:**

1. The IPT agreed on the following principles:

- A. The contractor will voluntarily identify subcontracts in concept papers:
- B. The government will then act as an information conduit with ultimate government customers.
- C. Prime contractors will participate in their subcontractor's management council in two circumstances (providing the subcontractor agrees).
  - (1) When the amount of business is so substantial that the prime contractor's agreement is absolutely imperative.
  - (2) When the prime contractor expresses reservations regarding the proposed change and needs to explain these objections to the management council.

2. **PARALLEL PROCESSING** is defined by the team as a method whereby prime and subcontract approval and implementation are done concurrently.

A. **Advantages:** Parallel processing allows for concurrent coordination with all affected parties, both government and prime contractor during the first and only cycle. Assuming that procedures are put in place to move the process along expeditiously and escalate problems quickly, the change can be accomplished within the current 120-day block change process cycle. All customer approvals are obtained concurrently during this single cycle. Additionally, having all stakeholders review the proposed change has the potential of assuring that the ultimate customers' interests are protected.

B. **Disadvantages:** The inclusion of subcontracts in the process increases the level of complexity and quantity of requirements. The component team leaders are already facing a tremendous workload. No mechanism exists to force the prime contractors to participate and modify subcontracts. Additionally, having more people reviewing a proposed change has the potential of raising additional minor objections which will slow down the process.

**3. SERIAL PROCESSING** is defined by the team as a method whereby approval for a change is obtained initially for government prime contracts followed by approval for subcontract changes under government prime contracts.

A. **Advantages:** It reduces the amount of coordination required in obtaining initial approval. The process which has been established is geared to coordination within the government with all participants following the same basic ground rules. When the government prime contract customers agree to a block change in the initial process, the prime contractor may be persuaded to agree to the change more readily.

B. **Disadvantages:** In the absence of a fundamental policy change which would direct prime contractors to accept government approved changes, the serial processing method would potentially involve significant delays and increased government risk. The approval process for subcontracts does not begin until after the initial approval cycle is complete. If the first cycle is accomplished in 120 days, the second cycle, the subcontract phase, must take 120 + days. The government, having completed its approval cycle, will not be facilitating this change during the subcontract approval phase. The ultimate government customers for the subcontracts will not have the advantages of a component team leader. Further, the contractor runs the risk of lengthy delays and therefore unanticipated costs in implementing the changes.

#### **4. CONCLUSION:**

Parallel processing offers the greater potential for implementing the SPI expeditiously on a facility-wide basis for DoD prime contractors who also perform as subcontractors. While the issues related to workload and complexity are a major consideration, obtaining all reviews and approvals in a single cycle accomplishes two important goals of the SPI: (i) to use an expedited, streamlined approach to modify existing government contracts and realize the full benefits of common process changes, and (ii) encourage contractors to propose facility-wide practices that meet the intent of government-unique contractual requirements.

## ***PRIME AND SUBCONTRACTOR RELATIONSHIPS IN THE SINGLE PROCESS INITIATIVE (SPI)***

### **RECOMMENDED PROCESS**

- Step 1** The subcontractor voluntarily identifies subcontracts in its concept paper.
- Step 2** The subcontractor submits the concept paper to the management council and prime contractor.
- Step 3** The management council notifies all affected government customers (both prime and subcontract relationship).
- Step 4** Component team leaders (CPLs) and the Defense Contract Management Command (DCMC) SPI point of contact (POC) facilitate the proposal review/approval process with the ultimate government customers. This proposal review and approval process will be performed in the same manner as is currently being performed on prime contractor concept papers with one exception. The government's approval of the proposed process change does not constitute a requirements determination. The prime contractor must approve the proposed process change and execute any requirements change (subcontract modification) with its subcontractor. The subcontractor, acting as a CTL, facilitates this process with its prime contractor.
- Step 5** The DCMC Administrative Contracting Officer (ACO) modifies the government contracts and the prime contractors modify the subcontracts. If the prime contracts need to be modified to eliminate mandatory flow down requirements, this is accomplished through a mini-concept paper review cycle at the prime contractor's management council. Since the ultimate government customers have been informed of and agreed to the single process change, this should be an expedited process whereby the DCMC ACO of the prime contractor is requested by the DCMC ACO of the subcontractor submitting the concept paper to process the block change modification based on the completed review.
- Step 6** The contractor implements the single process change facility-wide.

## **Minority Position**

### **Facilitating Deployment of the Single Process Initiative**

The Single Process Initiative (SPI), implemented via the Block Change Process (BCP), offers an unprecedented opportunity to reform the defense industry at a speed previously thought impossible. This point paper assumes the reader is familiar with the supporting rationale and case-for-action behind what has become known as Dr. Perry's Acquisition Reform Initiative and has a general understanding of how the SPI and BCP function as key elements in that initiative.

## **ISSUE**

Off to an impressive start, observers of SPI are seeing what could be a major road block developing in the industry. Specifically, in order to reap its full benefit, SPI must be implemented up and down the supply chain and yet there is not a formally recognized, expedient way to do so. Hence the concern for the viability of the initiative.

This barrier manifests itself in the form of interminable delays if the answer to supply chain deployment includes a requirement for full disclosure of SPI/BCP proposals to each and every ultimate customer as well as a requirement for primes, when offered a SPI proposal, to request contract relief from the ultimate customer.

## **PURPOSE**

This paper offers for consideration what is believed to be an "out of the box" recommendation designed to eliminate the looming barrier and accelerate change at an ever increasing rate.

It is based on one basic tenet and applies only to companies that supply DoD product/services both directly (as a prime) and indirectly (as a sub-contractor to another prime).

That belief: those companies still in the defense industry, performing as both a prime and as a sub, are capable, engineering companies or they wouldn't be willing to risk their reputation by offering a SPI proposal to any approving agency or company. This notion isn't much of a stretch in light of the requirement to include past performance criteria in the selection process.

## **BACKGROUND**

In general, the current process used to obtain a contract mod (block change) to implement a single process factory proposal requires concurrence from a single point of contact from (at least) each of the three services. As a simplistic generalization, this concurrence, by design, requires each single point-of-contact to ensure the contractor's customers do not have any major concerns with the proposal. Effectively, this means that the proposal in question will be reviewed by a sizable number of PMs and/or their technical representatives.

## **DISCUSSION**

The majority opinion proposes that the CAE point-of-contact is to share the proposed single process concept paper with all of the prime's ultimate DoD customers (to ensure a closed loop process - in the eventuality the sub approaches the prime for concurrence, who will in turn approach that customer). Should this process become the standard, the number of involved parties will increase in an exponential fashion.

In order for the full impact of an SPI to be seen, it must be deployed across the contractor's entire production facility and, in the context of this paper, the contractor's primes must also be approached for concurrence. Assume that they agree. What will happen? Due to potential risks to the prime's reputation, the result will be another, very thorough, critical engineering evaluation. Should the prime support the request, current practice, if not law or policy, requires a request for contractual relief from the ultimate customer in order to allow the subcontractor the freedom to implement the single process factory.

## CONCLUSION

This paper proposes that all of the administrative processing, document transport, document review, process evaluation and analysis performed by **those not required by the current SPI/BCP** is redundant, and therefore non-value added, and will slow implementation of this initiative.

Should the reader be concerned that product, ultimately destined for DoD consumption but going through a purchasing route associated with a prime/sub relationship, will not have had the single process proposal reviewed by a specific (ultimate) customer, consolation should be found in the fact that:

the sub-contractor's proposal has already been reviewed for adequacy/acceptability by a fairly large number of government specialists,  
neither the prime nor the sub is willing to suggest a process that endangers market reputation, and  
the prime is already being paid to manage sub-contractors in the government's best interest.

## RECOMMENDATION

It is proposed that the Government need only promulgate the following policy to facilitate SPI/BCP deployment throughout the supply chain:

**DoD strongly endorses the single process factory concept. Approval of single process factory initiatives by DoD, acquired in accordance with the block change approval process defined by Dr. Perry's letter of 6 Dec 1995 and Dr. Kaminski's letter of 8 Dec 1995, will constitute approval by DoD for the same request when processed through the original requester's prime company, should DoD concurrence be required. Therefore, the ACO of the prime company has authority to execute the requested change to effect the subcontractor's (previously) approved common process request.**

END OF DOCUMENT

## **RECOMMENDED PROCESS**

**Step 1** The contractor identifies subcontracts in its concept paper.

**Step 2** The contractor submits the concept paper to the management council and prime contractor simultaneously.

**Step 3** The management council notifies all affected government customers (both prime and subcontract relationship).

**Step 4** Component team leaders and the DCMC SPI POC facilitate the proposal review/approval process with the ultimate government customers. This proposal review and approval process will be performed in the same manner as is currently being performed on prime contractor proposals with one exception. The government's approval of the proposed process does not constitute a requirements determination. The prime contractor must approve the proposal and execute any requirements changes with its subcontractor. The subcontractor, acting as a component team leader, facilitates this process with its prime contractor.

**Step 5** The ACO modifies the government contracts and the prime contractor modifies the subcontracts. If the prime contracts need to be modified to eliminate mandatory flow down requirements, this is accomplished through a mini-concept paper review cycle at the prime contractor's management council. Since the ultimate customers have been informed of and agreed to the change, this should be an expedited process whereby the DCMC ACO of the prime contractor is requested by the DCMC ACO of the contractor submitting the concept paper to process the block change modification based on the completed review.

**Step 6** The contractor implements the process change facility-wide.



ACQUISITION AND  
TECHNOLOGY

## THE UNDER SECRETARY OF DEFENSE

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MEMORANDUM FOR PRINCIPAL DEPUTY UNDER SECRETARY OF DEFENSE  
(ACQUISITION & TECHNOLOGY)  
DEPUTY UNDER SECRETARY OF DEFENSE  
(ACQUISITION REFORM)  
ASSISTANT SECRETARY OF THE ARMY (RESEARCH,  
DEVELOPMENT & ACQUISITION)  
ASSISTANT SECRETARY OF THE NAVY (RESEARCH,  
DEVELOPMENT & ACQUISITION)  
ASSISTANT SECRETARY OF THE AIR FORCE (ACQUISITION)

SUBJECT: Prime and Subcontractor Relationships in the Single Process Initiative (SPI)

Since the SPI policy was issued on December 8, 1995, we have identified a number of issues which have prevented us from realizing the full potential of this initiative. One such issue involves DoD prime contractors who are also performing work as subcontractors to other DoD prime contractors. The process we outlined in our policy letter applied only to DoD prime contracts at the contractor's facility. It did not address the issue of modifying subtier contracts once a process was approved by the government customers and a block change modification was executed on the prime contracts. The contractor's inability to implement changes on a facility-wide basis because his subcontracts contain flowdowns of government unique requirements needs to be resolved.

A joint Service/Agency/Industry team was chartered to review this issue and design a process to facilitate full implementation of the SPI in contracts at subtier levels, thereby allowing contractors to make changes facility-wide. The team designed a process which is outlined in the enclosure. Essentially, this process provides for the government to assist in coordinating contract concept papers with all government customers, whether of a prime or subcontractor relationship, while the contractor simultaneously coordinates his concept paper with the prime contractor. After all approvals, it is expected that the prime contractors will modify subtier contracts in a manner similar to the government's current block change process. This process is being issued to DoD prime contractors.

We need to eliminate the inefficient multiplicity of processes and implement the SPI as widely and effectively as possible, while ensuring that the integrity of the products and services we provide our warfighters is not adversely affected.

Attachment

